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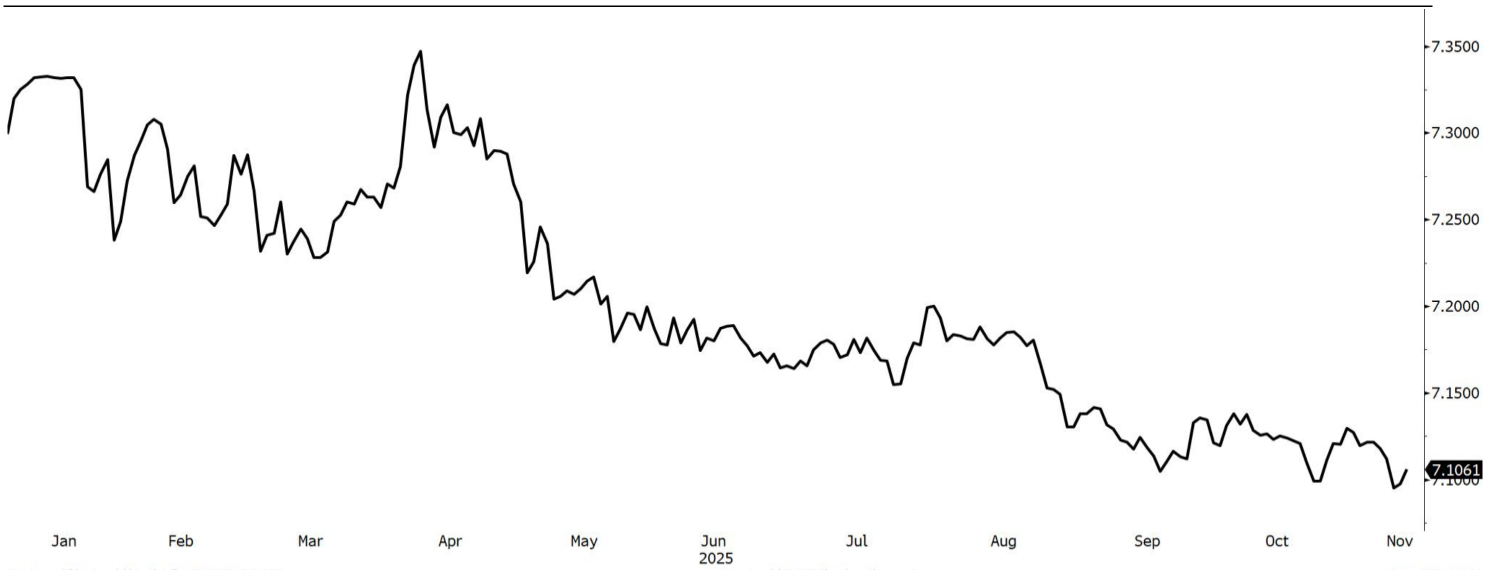
FX Focus: RMB to Keep Strengthening Gradually vs USD

China's Renminbi (RMB) spot has gained 2.7% against USD YTD with the bulk of gains coming after widespread tariffs were announced by Washington in April. Investors seem willing to buy the RMB as the People's Bank of China (PBoC) continues to strengthen its trading band through lowering its daily USDRMB fixings. We believe Beijing is attempting to stabilize capital flows amid an underwhelming Chinese recovery and global trade uncertainty.

- The PBoC sent a clear message to investors in its latest Monetary Policy Report (MPR) with its policy board favoring a strong and stable currency and pledging to keep RMB "basically stable at a reasonable equilibrium level."
- We believe Chinese policymakers want a stable currency with a gradual strengthening bias. Their stated intention to keep RMB stable is also consistent with China's longer-term ambitions of internationalizing the RMB to boost offshore demand for Chinese assets and increase cross-border currency settlements.
- China's FX reserves rose to US$3,343.3 billion from US$3,338.6 billion on-month, beating consensus forecasts for a fall to US$3,327 billion. The increase was driven by equity inflows rather than its more traditional source: trade surpluses. This is in contrast to 2022-23, when many foreign investors then declared Chinese assets uninvestable.
- China has typically relied on trade surpluses to boost FX reserves. But China's trade surpluses have been impacted by global economic and trade uncertainty. Its exports to the US fell 25.2% in October on-month. Also, China's total exports contracted 1.1% on year (in USD terms), marking its first decline in eight months which has likely resulted in an alternative pathway towards stabilizing their FX reserve and capital flows.
- This likely leaves a stronger RMB in a 7.00 – 7.1220 range against USD in 2025, with a potentially lower 6.85 – 7.00 range in the first quarter of next year if Fed cuts translate into further USD weakness. RMB gains however, are likely to be gradual compared to its post-April gains as the softer domestic outlook in China also opens up the PBoC towards delivering further monetary policy easing via rate and RRR cuts in 2026. Lower interest rates might pose a modest headwind for the RMB.
- The case for further monetary easing remains strong. China's October data shows credit and money growth declining, as has industrial production and services output - both to their lowest readings since August. Retail sales grew on-month but slowed for a fifth straight month. Meanwhile, the fall in capital investment widened further with the monthly contraction at double digits, led once again by a sharp slump in property investment. Other key October data has also failed to show data watchers that earlier policy directives worked as expected.
- With this data set in mind, additional policy easing is likely and could slow the pace of further RMB gains. That said, the resilience of China's external accounts allows the PBoC to continue to strengthen RMB, albeit at a more gradual pace to maintain capital flow stability, despite the October bump in domestic recovery.

FIGURE 2: RMB has been strengthening against the USD since April



Source: Bloomberg, November 17, 2025. **Past performance is no guarantee of future results.** Real results may vary.

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